

IRS Shelves Inquiry Into Tax Havens

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The Internal Revenue Service has temporarily suspended a large-scale investigation of trust accounts established overseas by American citizens to avoid paying taxes, according to highly reliable government sources.

The investigation, begun in 1973 and called "Project Haven," had focused on foreign tax havens used by hundreds of wealthy Americans allegedly to avoid paying millions of dollars of income tax here annually.

Suspension of the "Haven" investigation has jeopardized one of the largest potential criminal and civil court tax recovery operations in the history of the IRS, according to sources in both the Justice Department and IRS.

The order to suspend the operation came last month from IRS Commissioner Donald C. Alexander, according to the sources.

A spokesman for Alexander said the investigation has not technically been suspended, but was "halted temporarily pending review of investigative procedures used in the project."

No new cases in the project will be initiated until the review is complete, the spokesman said.

This action came just as dozens of IRS special agents were about to begin a massive probe of numbered stock brokerage accounts in the United States allegedly used by the foreign trusts maintained by American citizens. These numbered accounts are used to help conceal the identity of the trust holders.

The reasons for the suspension of the investigation are unclear, Alexander, according

See HAVEN, A7, Col. 1

HAVEN, From A1

to a source close to him, believes that an informer used in developing the case may have acted improperly.

Other high level government sources charge that Alexander, a former tax lawyer from Cincinnati, has been try-

ing to reduce the effectiveness of the criminal investigations by the IRS.

Alexander has been quite open in stating his belief that the main function of the IRS is to collect taxes and not to investigate crime.

One immediate result of the suspension of "project Haven"

has been a delay in action on a recommended criminal indictment of a prominent Chicago tax lawyer Burton W. Kanter.

The recommendation for Kanter's indictment, made by the IRS special agent and a Justice Department attorney overseeing the "Haven" inves-

tigation, grew out of allegations that Kanter counseled a wealthy family in Reno, Nev., on how to use a foreign trust set up through the Castle Bank and Trust Co. Ltd. in Nassau, Bahamas Islands, to avoid U.S. taxes.

Kanter who has maintained that such trusts are legal, said this week that he is aware that his indictment has been recommended in the Reno case. But he said that he has secured a review of the recommendation by the office of the IRS chief counsel in Washington.

Kanter, saying he is innocent of any wrongdoing, criticized the IRS investigation. He said his case was not properly reviewed and was instead "railroaded" to the Justice Department by those supervising the Haven investigation.

Kanter is one of the nation's foremost experts on foreign trusts and in 1969-70 wrote the definitive legal paper on the use of foreign trusts to shelter investments. He has said he adheres to the technical limits of the law allowing U.S. citizens to defer tax payments from capital gains paid to foreign trusts.

Other legal and IRS sources consulted last week agree with Kanter's interpretation of the law but noted that, technically, a trust — whether in this country or another — must not be under the control of the person who established it.

IRS sources said that many of the foreign trusts under investigation, including those handled through Castle Bank

and Trust, involve so-called "sham transactions" that produce a trust set up by an American for another American rather than a foreign trust in the legal sense.

IRS sources contended they can establish that the intent in establishing such trusts was simply to illegally avoid taxes.

"Project Haven" was begun in early 1973 when Richard Jaffe, an IRS special agent from Miami, obtained about 450 pages of Photographed records of Castle Bank and Trust from a confidential informant with whom Jaffe had worked in earlier IRS criminal investigations.

The records, apparently photographed in a Bahamian apartment after being provided by sources within the bank, listed 300 trusts, many in the names of U.S. citizens.

Further investigation revealed that at least \$260 million in assets were held at the bank.

Castle Bank and Trust is not a bank in the traditional sense, with tellers' windows, but in many cases merely acts as a bookkeeping operation, appearing to transfer money back to the United States for investment. In many cases, in fact, the money never leaves the United States according to sources.

IRS Commissioner Alexander's chief objection to Project Haven, according to the sources, is that the confidential informant in Miami, while working so closely with the IRS that his actions were in effect on behalf of the IRS, obtained records by methods

an IRS agent would not have been permitted to use.

Accordingly, the sources said, Alexander ordered an internal investigation of Project Haven by the IRS inspection division.

It is possible, the sources said, that the procedures used by the informant may have violated the rights of those who might ultimately come under investigation or be prosecuted.

The informant has been paid nearly \$50,000 in informant's fees over the last three or four years, according to the sources.

However, sources said that the methods used in developing the information were scrutinized by IRS and Justice Department attorneys before Haven was made into a major national probe in the autumn of 1973.

William Hyatt, an attorney in the tax division of the Justice Department who was put in charge of the project, could not be reached for comment.

When initial investigative work established that most leads and information were coming out of the New York City area, the project was moved there, sources said.

Ultimately, grand juries in New York, Miami and on the West Coast became involved in the probe. By early this year, all seven IRS regions were involved in more than 100 potential cases.

One high level source said that as many as 30 prominent law firms might become in-

involved if the investigation continues.

So widespread was the foreign trust practice that hundreds of lawyers attended seminars in the Bahamas outlining the methods of setting up the trusts.

Government sources and at-

torney Kanter agreed that Castle Bank and Trust is only one of dozens of banks used to set up foreign trusts in the Caribbean and Europe.

Some government sources said that they are still confident that Project Haven, if resumed, could lead to successful prosecution in some cases.